COMBINED ENGINEERED PRODUCTS LIMITED

TWENTY-SEVENTH ANNUAL REPORT 1971

COMPRO

TWENTY-SEVENTH ANNUAL REPORT 1971 **COMBINED ENGINEERED PRODUCTS LIMITED**

2242 Lakeshore Blvd. West
Toronto 500, Ontario
Canada

BOARD OF DIRECTORS

*M. O. SIMPSON, JR.	*Phoenix, Arizona, Chairman of the Board and Executive Committee*
*D. S. BEATTY	*Toronto*
J. P. CARRIÈRE	*Montreal*
*P. S. NEWELL	*Toronto*
M. O. SIMPSON	*Tucson, Arizona*
D. L. TORREY	*Montreal*
*H. M. TURNER	*Toronto*

**Members of Executive Committee*

OFFICERS

M. O. SIMPSON, JR.	*President*
J. R. IRWIN	*Vice President*
B. T. H. KNILL	*Vice President & Secretary-Treasurer*
R. J. NISBET	*Controller & Asst. Secretary*

TRANSFER AGENTS AND REGISTRARS

MONTREAL TRUST COMPANY
Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg

REGISTRAR AND TRANSFER COMPANY
15 Exchange Place, Jersey City 2, N.J.

AUDITORS

PARENT COMPANY AND THE CANADIAN SUBSIDIARY COMPANIES
McDonald, Currie & Co.

SOUTHEASTERN ELEVATOR
WESTBROOK ELEVATOR MANUFACTURING
Lybrand, Ross Bros. & Montgomery
(associated firm of McDonald, Currie & Co.)

COMPRO-FRINK CORPORATION
FRINK SNO-PLOWS
Leon W. Robb

COMBINED ENGINEERED PRODUCTS LIMITED

2242 Lakeshore Blvd. West,
Toronto 500, Ontario

CANADIAN DIVISIONS

FORT GARRY AUTOMOTIVE INDUSTRIES *Winnipeg, Manitoba; Regina and Saskatoon, Saskatchewan and Thunder Bay, Ontario*	*D. L. Suché,* *President*
HAMILTON GEAR AND MACHINE COMPANY *Toronto, Ontario and Montreal, Quebec*	*P. H. Slaughter,* *President*

CANADIAN SUBSIDIARY

LAWRON INDUSTRIES LIMITED	*J. R. Irwin,* *President*
EASTERN STEEL PRODUCTS *Preston, Ontario*	*J. R. Irwin,* *General Manager*
FRINK OF CANADA *Preston, Ontario and Montreal, Quebec*	*G. G. Reitz,* *General Manager*
LAWRON INDUSTRIES *Farnham, Quebec*	*P. J. M. Morin,* *Vice President &* *General Manager*

U.S. SUBSIDIARY

COMPRO-FRINK CORPORATION

FRINK SNO-PLOWS *Clayton, New York*	*S. P. Lockhart,* *President*
SOUTHEASTERN-WESTBROOK ELEVATOR *Atlanta, Georgia and Danville, Virginia*	*R. A. Davis,* *President*

THE DIRECTORS' REPORT

To the Shareholders of

COMBINED ENGINEERED PRODUCTS LIMITED

Consolidated Sales of $21,486,130 produced net earnings of $441,239 after providing $513,000 for income taxes. This, after the payment of $110,000 dividends on the Preferred Shares, Series 'A', is equal to 54¢ per Common Share as compared to 44¢ per share last year.

The increase in 1971 earnings is attributable to improved Canadian operations. Earnings of the U.S. subsidiaries were affected by a strike at Frink Sno-Plows and a slowdown in the U.S. construction industry causing lower sales of the elevator companies.

Capital expenditures in 1971 amounted to $485,962. In September 1971 arrangements were completed to reclassify some of the company's bank loans. This change has been reflected in the August 31, 1971 balance sheet. Accordingly, working capital increased by $1,097,521.

At August 31, 1971, the Common Shareholders' equity was $2,421,200, equal to $3.95 per share.

While protective measures which tend to restrict trade in North America are viewed with concern, those recently adopted indicate little immediate effect on the company.

The outlook this coming year for the company's operations is good and it is expected that 1972 profits will compare favourably with those of 1971.

For their efforts in achieving the improved results in the past year, the directors wish to extend their appreciation to the officers and employees of the company, its divisions and subsidiaries.

On behalf of the Board of Directors,

Chairman

Toronto

November 4, 1971

CONSOLIDATED BALANCE SHEET AS AT AUGUST 31, 1971

	Cost	Accumulated Depreciation	1971	1970
ASSETS			**$**	$
CURRENT ASSETS				
Cash			**266,801**	289,870
Accounts receivable—trade			**2,988,547**	2,757,236
Accounts receivable—other (Note 3)			**40,673**	51,073
Inventories—at the lower of cost or net realizable value (Note 4)			**4,710,331**	4,066,483
Prepaid expenses			**169,981**	138,131
Mortgages receivable due within one year			**12,750**	19,750
			8,189,083	7,322,543
FIXED ASSETS	$	$		
Land	174,941	—	**174,941**	179,457
Buildings	1,959,822	888,407	**1,071,415**	1,100,224
Machinery and Equipment	5,890,328	4,668,437	**1,221,891**	1,362,973
	8,025,091	5,556,844	**2,468,247**	2,642,654
Land held for sale—at cost less proceeds of portion sold			**117,862**	115,275
			2,586,109	2,757,929
OTHER ASSETS				
Excess cost of investment in businesses over book value of net assets at dates of acquisition			**21,918**	21,918
Patents—at cost, less amounts written off			**9,330**	9,054
Mortgages receivable			**19,500**	21,500
Prepaid pension expense			**12,196**	26,228
Deposits			**10,490**	12,548
			73,434	91,248
			10,848,626	10,171,720

	1971	1970
LIABILITIES	**$**	$
CURRENT LIABILITIES		
Bank Loans (Note 5)	**1,318,800**	1,911,451
Accounts payable and accrued liabilities	**2,483,763**	1,983,579
Income and other taxes payable	**305,563**	346,324
Portion of long term liabilities due within one year	**355,721**	453,474
	4,463,847	4,694,828
LONG TERM LIABILITIES (Note 6)	**1,836,579**	1,304,931
DEFERRED INCOME TAXES	**127,000**	82,000
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized—		
200,000 Preferred Shares of the par value of $20 each, issuable in series		
1,200,000 Common Shares without nominal or par value (Note 7)		
Issued and fully paid—		
100,000 $1.10 Cumulative, Convertible Preferred Shares, Series A, redeemable at $21.50	**2,000,000**	2,000,000
612,300 Common Shares (Note 8)	**157,250**	157,250
RETAINED EARNINGS	**2,263,950**	1,932,711
	4,421,200	4,089,961
	10,848,626	10,171,720

Signed on behalf of the Board:

M. O. SIMPSON, JR., *Director*

H. M. TURNER, *Director*

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1971

	1971	1970
	$	$
SALES	**21,486,130**	20,311,985
COSTS		
Cost of products sold	**16,748,368**	15,771,182
Advertising	**141,164**	132,905
Selling expenses	**978,067**	973,617
Research and product development	**86,943**	79,374
Administrative and general expenses	**1,499,228**	1,515,349
Depreciation and amortization	**565,181**	511,270
Interest on bank loans	**126,542**	153,222
Interest on long term liabilities	**124,118**	148,791
Remuneration of directors and senior officers	**262,280**	240,872
	20,531,891	19,526,582
EARNINGS BEFORE INCOME TAXES	**954,239**	785,403
INCOME TAXES		
Current	**468,000**	467,000
Deferred	**45,000**	(60,000)
	513,000	407,000
NET EARNINGS FOR THE YEAR	**441,239**	378,403

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED AUGUST 31, 1971

	1971	1970
	$	$
BALANCE—beginning of year	**1,932,711**	1,769,500
Write down of investment in U.S. subsidiaries (Note 1)	—	105,192
	1,932,711	1,664,308
NET EARNINGS for the year	**441,239**	378,403
DIVIDENDS—Preferred Shares	**110,000**	110,000
	331,239	268,403
BALANCE—end of year	**2,263,950**	1,932,711
EARNINGS per Common Share (after dividends on Preferred Shares)	54¢	44¢

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Combined Engineered Products Limited and wholly owned subsidiary companies as at August 31, 1971 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of the parent company and those of its subsidiary companies of which we are auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditor who has examined the financial statements of the other subsidiary company.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at August 31, 1971 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles which, except for the change in the method of accounting for contracts referred to in Note 2, with which we concur, have been applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

Toronto, October 26, 1971

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED AUGUST 31, 1971

	1971	1970
SOURCE	$	$
Operations—		
Net earnings for the year	**441,239**	378,403
Add: Depreciation provided	**565,181**	511,270
Deferred income taxes	**45,000**	(60,000)
	1,051,420	829,673
Disposals of fixed assets	**92,327**	69,087
Reduction in mortgages receivable	**2,000**	19,750
Reduction in prepaid pension expense	**14,032**	2,932
Decrease (increase) in deposits	**2,058**	(12,548)
Increase in term bank loan	**650,000**	—
Reduction in goodwill	—	495
	1,811,837	909,389
USE		
Dividends paid to preferred shareholders	**110,000**	110,000
Additions to fixed assets	**485,962**	346,698
Decrease (increase) (net) in long term liabilities	**118,354**	(78,994)
Reduction in exchange equalization reserve	—	12,502
Write down of investment in U.S. subsidiaries	—	105,192
	714,316	495,398
INCREASE in working capital	**1,097,521**	413,991

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 1971

1. Basis of Consolidation

The accounts of all subsidiary companies have been consolidated. Assets, liabilities and earnings of the United States subsidiary company has been converted to Canadian Funds at $1 U.S. = $1.02 Canadian.

Had the company charged the write down of investment in U.S. subsidiaries in 1970 to earnings for that year as an extraordinary item, as was required in the opinion of the company's auditors but with which the directors disagreed, net earnings for that year would have been $273,211 (27¢ per common share after dividends on preferred shares).

2. Change in Accounting Principle

During the year one of the subsidiaries changed its method of accounting for contracts to conform with the accounting principle used by the other operations of the company. The auditors concur with the change, the effect of which is to increase the net earnings for the year after income taxes by $74,000 which represents 12¢ per Common Share.

3. Accounts Receivable—Other

This amount represents the accounts receivable repurchased under an agreement dated February 24, 1966 with Dover Corporation relating to the sale of the elevator companies.

4. Inventories

These comprise:	1971	1970
	$	$
Raw Materials	1,804,314	1,606,439
Work in Process	1,172,852	730,703
Finished Goods	1,733,165	1,729,341
	4,710,331	4,066,483

5. Bank Loans

$2,177,000 of the bank loans including term bank loans at August 31, 1971 have been secured by a floating charge debenture on the parent company's assets and by pledging inventories and trade accounts receivable of the divisions of the parent company and its Canadian subsidiary.

6. Long Term Liabilities

	Long Term	Portion due within one year
	$	$
Term bank loans—scheduled for repayment at varying amounts per year to December 31, 1977 ($1,500,000 secured: Note 5)	1,412,200	281,600
Westbrook Elevator—5% mortgage note due May 31, 1986 secured by fixed assets with net book value of $166,000	199,440	8,885
Equipment leases	104,280	47,175
Sundry notes and mortgages	120,659	18,061
	1,836,579	355,721

7. Common Shares

100,000 Common Shares are reserved for the conversion of the $1.10 Cumulative, Convertible Preferred Shares, Series A. Each such Preferred Share may be converted to 1 Common Share to December 1, 1972.

8. Dividend Restriction

The provisions of the $1.10 Cumulative, Convertible Preferred Shares, Series A prevent the payment of dividends on the Common Shares unless, immediately after giving effect to such action, the aggregate amount of dividends paid subsequent to August 31, 1962 on all shares of the company will not be more than the consolidated net earnings since that date. Before dividends on the Common Shares can be paid, therefore, additional consolidated net earnings (after payment of the cumulative dividends on the Preferred Shares) of $1,314,000 must be made.

9. Unfunded Pension

Employees' pension plans have an unfunded liability at August 31, 1971 of approximately $375,000. The company intends to fund this amount over 19 years.

10. Information re Directors and Officers

The company has seven directors whose aggregate remuneration as directors was $7,300 all of which was paid by the company. The company has four officers whose aggregate remuneration was $215,060 of which $104,060 was paid by Compro-Frink Corporation, a wholly owned subsidiary. One of these officers is also a director.

11. Long Term Leases

Annual rentals on real property leases of more than three years duration approximate $80,000. Such leases expire at varying dates before 1993.

12. Contingent Liabilities

Under the terms of an Agreement dated February 24, 1966 with Dover Corporation for the sale of the elevator companies, the company may be called upon to reimburse Dover for liabilities arising prior to February 28, 1966 which were not recorded as at that date. If these liabilities are deductible for income tax purposes by the elevator companies, then the reimbursement which the company may be called upon to make is reduced by 50%. Under the terms of this indemnity, the company is aware of unsettled litigation in the United States for amounts totalling $630,000. These actions have arisen between the date of sale and the present time. During the year claims amounting to $45,000 were dismissed. In the opinion of management the above actions will be settled for materially less than $630,000, and furthermore would be deductible for income tax purposes. It is impossible at this time to ascertain what, if any, payment will have to be made in respect to these actions.

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COMBINED ENGINEERED PRODUCTS LIMITED

INTERIM REPORT

TO SHAREHOLDERS

FOR THE SIX MONTHS

ENDED FEBRUARY 28, 1971

COMBINED ENGINEERED PRODUCTS LIMITED

To the Shareholders:

The sales and earnings of the U.S. subsidiaries for the six months ending February 28, 1971 have been included at an exchange rate of $1.00 U.S. equals $1.00 Canadian (February 28, 1970: $1.00 U.S. equalled $1.08 Canadian). In order to reflect a more accurate comparison of the sales and earnings the exchange included in the February 28, 1970 results has been shown separately.

M. O. SIMPSON, JR.,
Chairman and President.

INTERIM CONSOLIDATED STATEMENT OF EARNINGS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1971

	February 28 1971	February 28 1970
	$	$
SALES BEFORE EXCHANGE	11,027,122	10,713,665
EXCHANGE	—	340,938
SALES	11,027,122	11,054,603
EARNINGS BEFORE INCOME TAXES AND EXCHANGE	586,113	487,814
EXCHANGE	—	27,898
EARNINGS BEFORE INCOME TAXES	586,113	515,712
ESTIMATED INCOME TAXES	315,180	265,400
NET EARNINGS FOR THE PERIOD	270,933	250,312
EARNINGS PER COMMON SHARE	35.2¢	31.9¢

INTERIM CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

(Subject to Year End Adjustments and Audit)

FOR THE SIX MONTHS ENDED FEBRUARY 28, 1971

SOURCE		
Operations		
Net earnings for the period	270,933	250,312
Depreciation provided	264,581	263,083
	535,514	513,395
Decrease in mortgages receivable	250	750
Increase (decrease) in term liabilities	(16,558)	328,926
	519,206	843,071
USE		
Dividends paid to preferred shareholders	55,000	55,000
Additions to fixed assets—net	120,362	126,529
	175,362	181,529
INCREASE in working capital	343,844	661,542
WORKING CAPITAL at beginning of year	2,627,715	2,213,724
WORKING CAPITAL at end of period	2,971,559	2,875,266
CURRENT ASSETS	8,169,773	8,298,873
CURRENT LIABILITIES	5,198,214	5,423,607
	2,971,559	2,875,266